proposal or a basis for the credits that does not tie back to the tariff.

MR. KOERNER: You're relating to the specific monetary figures that they proposed?

MR. SPENCER: Right. So again, the rates, the credits that he's proposed, do not tie back to the rates and reference that he would have you tie back to, in referencing back to this particular tariff reference.

MR. KOERNER: Does it -- either of you could answer this question. Do those figures relate to Verizon's tariff provisions that apply to customers that are in groups 7 and 8, or is that why the numbers are different?

MR. SPENCER: Absolutely not.

MR. KOERNER: Absolutely not.

MR. SPENCER: Absolutely not, and that's part of the problem. The credits that Cavalier has proposed in no way tie back to the rates that are referenced in this section of the tariff.

MR. KOERNER: Mr. Clift, where do those figures come from?

MR. CLIFT: My testimony addresses that, and they're ballpark figures of what we believe an average retail Verizon customer pays for their retail services from Verizon in rate group 7 and rate group 8.

Now, as Mr. Spencer says in his rebuttal testimony, rate group 8 that's referenced for Northern Virginia is part of the Washington metropolitan area, and for business customers, that's served by predominantly message rate services. But Cavalier has a flat rate service offering to its business customers, and it was only designed there to provide approximation and not specificity, because we could, again, argue about the specifics of how that tariff is implemented, what they pay their customers, how they pay their customers, when they pay their customers, under what circumstances they pay their customers.

And to avoid confusion, avoid further debate on that subject, avoid disputes, again, we attempted in our contract language to provide some specificity into an area that we believe is one that

just is necessary to have accountability on Verizon's side, and with the parties working to minimize the number of errors so that the financial consequences on Verizon certainly would be minimal. And we would certainly hope that that would be minimal.

MR. SPENCER: Mr. Koerner, if you would allow me, let me give you an example of what a retail customers would get in Verizon's environment on the retail side of the house, and then compare and contrast that to the proposal that Cavalier has put on the table.

I think I've made it clear in my testimony that in many instances, customers don't get a single credit, they get no credit for a directory listing error or omission. But assuming that they get the full amount of the credit they're entitled to under the tariff, and I will go to the highest rate group.

MR. KOERNER: Is that rate groups 7 and 8?

MR. SPENCER: That would be rate group 8 for a customer that pays $14.82 a month for local exchange service. In the retail environment, the

maximum credit that that customer would be entitled to is $88.92.

Again, that's if he would get a credit at all. Many don't, and many customers would get less than that. But the maximum credit a retail customer would get is $88.92.

Under Cavalier's proposal, Cavalier's residential customers would get $150 credit. They would get a credit that's almost twice as much as any credit that 100 percent of our customers would get, or it would exceed the credit that Verizon would provide to 100 percent of its retail customer base.

MR. KOERNER: Mr. Clift, how would you explain that discrepancy?

MR. CLIFT: Sure, a couple things. What Mr. Spencer is saying contradicts what Mr. Spencer has told Steve Bradley at the Virginia State Corporation Commission; and Mr. Spencer's figures, he's excluding all of the taxes on those services, and I don't know exactly what his fixed charge is per line and what his fixed is for the usage

component as well. So I think his figures are understated to that effect.

And I also would say that -- and I think more important than that is that we have provided evidence that Verizon's actual practices for Creature Comforts, Grande Floria and Thompson & McMullen, as in my testimony, say that Verizon doesn't necessarily practice what they preach.

MR. SPENCER: There are three issues that I would like to comment on, and it will go back to one of the earlier comments that Cavalier has indicated.

They say that our proposal does not include a credit for facilities-based plays, for those customers that are providing a loop and they're not purchasing it from Verizon.

If I could direct you to the revised joint decision point list on page 51, the language in our proposal says, "For a Cavalier customer served with a Verizon loop or entirely over Cavalier's own facilities," a credit would be provided, okay.

I also say that same thing in my

testimony. So I don't believe it's true that our proposal does not provide for a credit where a loop for facility is not being leased.

I would also like to comment on this tax issue. We do not develop credits based on taxes. It's based on local exchange service. It's based on the rates that are included in the tariff. We do not include taxes. We do not include fees, and we do not include surcharges in the development of that credit.

Now, what we do is we take the credit based on the local exchange service, and we put that on the customer's bill. It shows up as a credit or an adjustment; it flows into the net amount due. That net amount due is then taxed. And it's on that basis that our customers would get the associated tax credits related to that directory listing credit.

But in no way do we include taxes in the calculation of that credit. Now, if Cavalier were to flow through the credits on the same basis that we've proposed, and they did the same thing in their

billing system, then the customer on the Cavalier side of the house would get the associated tax credits as well.

Now, if Cavalier chose not to flow through those tax credits, that amount would simply be a windfall to Cavalier.

But the bottom line is, is that we do provide credits and are in full compliance with any taxing obligations or responsibilities that Verizon may have with regards to processing those credits.

Again --

MR. KOERNER: One second.

MR. LERNER: I don't think there's a question pending.

MR. KOERNER: Mr. Clift, your proposed section 19.1.6.2C regarding yellow pages listings, Verizon has objected that that language is either unnecessary in the case of free yellow pages listings or deals with regulated yellow pages services and, therefore, aren't germane to the interconnection agreement. Could you explain what the purpose of that section is with regard to their

objections to it?

MR. CLIFT: Well, the purpose of that section was to provide some resolution for our customers as to why their listing is in error in the phone book. And as I indicated in my testimonies, this particular case came up with Thompson and McMullen, and we met with Verizon, we met with Verizon's representative from VIS. And the Verizon representative mentioned that he would supply information to the customer and to Cavalier as to how that error occurred, because we don't know how the error occurs.

We know that Cavalier submitted it correctly. All of our documentation lines up with what the customer asked for. But the error occurred somehow on the Verizon side, and we don't know why.

And the customer said, "How did this error occur? Cavalier told me the error was -- Cavalier told me my listing was fine. Cavalier confirmed that the listing was input, as I said it was, but the listing in the phone book came out in error. Why?"

And so the customers asked us for that information, and I can't respond to that. So I'm merely asking in this particular case for Verizon to submit a letter that merely identifies how that error occurs and what -- you know, and what that means in terms of what that customer should feel about that error, about their listing for next year's book.

MR. KOERNER: I have no more questions.

MR. LERNER: Okay. I guess there's some testimony to be admitted.

MR. STUBBS: Cavalier moves for introduction of the direct testimony of Todd Hilder and rebuttal testimony of Todd Hilder as C-18 and C-19. Mr. Clift's testimony is already in evidence.

MS. NATOLI: Is the tariff provision that you were reading from, has that been admitted into the record at all as an attachment to the testimony or something? I do remember some tariff provisions being attached.

MS. NEWMAN: It's not.

MS. GRILLO: If I can answer, it's

actually -- the relevant excerpt is in the testimony, but we can easily give you the page also, give you the section of the tariff.

MS. NATOLI: Okay. With the brief, then.

MR. SPENCER: Is that the section of the tariff that addresses our limitation of liability?

MS. NATOLI: What you were reading from. You were reading from a section of the tariff.

MS. GRILLO: Yes. We'll attach it to our brief.

MS. NEWMAN: Verizon would move into evidence the panel testimony of R. Michael Toothman and Steven C. Spencer dated September 23, 2003 and marked now as Verizon Exhibit Number 11.

Verizon would also move into evidence the document labeled panel testimony, it should be panel rebuttal testimony of R. Michael Toothman and Steven C. Spencer dated October 9, 2003 and now marked as Verizon Exhibit 12.

MR. LERNER: Those exhibits are admitted.

(Verizon Exhibits 11 and 12 received.)

MR. LERNER: We'll take a break and resume

with issue C14 at 11:20.

(Recess.)

MR. LERNER: Issue C14. Each of you remain under oath from either this morning or from yesterday. Your turn.

MS. NEWMAN: No questions.

EXAMINATION

BY MR. PERKINS:

Q Good morning, panel.

On page 15, lines 16 through 17 of your rebuttal testimony --

MS. NEWMAN: Would you repeat that for me, please?

MR. PERKINS: Sure. On page 15, lines 16 through 16 of your rebuttal testimony.

MS. NEWMAN: Thank you.

BY MR. PERKINS:

Q You state that "CLECs can order UNE platform or resale"; is that correct?

A (Mr. Albert) Yes.

Q Is it possible that UNEP in its current form may not be available on a prolonged basis?

A (Mr. Albert) Although I'm not a lawyer, my understanding was there was a process in the triennial review where that's possible, although I'll not sure of all the particulars, but I think it was addressed in there.

Q Is UNEP or resale-based competition -- is it your understanding that that's consistent with facilities-based competition?

MS. NEWMAN: I'm sorry, I don't understand the question. Is it based on?

BY MR. PERKINS:

Q Is UNEP or resale -- let me rephrase it.

Is a UNEP or resale-based CLEC business strategy, is it your understanding that that's consistent with facilities-based -- promoting facilities-based competition?

MS. NEWMAN: I'm going to object to the form of the question to the extent it calls for a legal conclusion.

MR. PERKINS: I asked for your understanding.

MR. LERNER: I'll allow it.

MS. CLAYTON: It's my understanding UNEP is similar to resale, but it's ordered by facility-based CLECs. In addition to the other two options here, we would add subloops to this list.

BY MR. PERKINS:

Q On page 16, lines 11 through 12 of your rebuttal testimony again, you refer to a UNE loop using UDLC involving the same number of analog digital transmission conversions as the hairpin method suggested by Cavalier; is that correct?

A (Mr. Albert) Yes.

Q Isn't it true that a UNE loop using a hairpin method could involve a direct digital handoff such that would not involve the same number of analog to digital conversions?

A (Mr. Albert) Then it would be a different type of loop. That would not be a two-wire voice grade unbundled loop. Unbundled loops are defined by our technical references. That's what you get out of your interconnection agreement. If you were handing off an unbundled loop that's a physical two-wire connection, which is what people commonly

refer to as the analog unbundled loop or the POTS unbundled loop, that is technically, and in terms of its specifications, it's very different than some quantity of individual analog loops that would be multiplexed together and handed off as a DS1.

There are not today that Verizon offers any kind of multiplexed DS1 unbundled loop handoffs. It really would be a new type of a UNE loop.

Q Let's say there's a product that exists that is that type of UNE loop. Isn't it possible to use a hairpin connection with a direct digital handoff and not have the same number of analog to digital conversions as the UDLC loop?

A (Mr. Albert) If there was a product, which there isn't, there would be then one less analog to digital conversion.

Q Let me point you to two points in your rebuttal testimony, the first on page 18, line 4, and ask you if it's true that you refer to Verizon's spending mill -- spending millions of dollars to trial and potentially develop an unbundling method. Is that generally correct?

A (Mr. Albert) Yes.

Q Now, let me point you to page 20 of your rebuttal testimony, where you refer to a 60-day trial, on line 4, as a grossly insufficient amount of time to implement a trial; is that correct?

A (Mr. Albert) To implement the two particular types of trials that Cavalier has proposed, that's correct.

Q Sure. Now, is it consistent to conceive of spending millions of dollars within a 60-day period on this type of project?

A (Mr. Albert) Low millions, depending on the nature of the work. But, you know, generally something in the range of millions is going to be longer than 60 days.

Q Is Verizon categorically opposed to any type of un -- trial of unbundled -- excuse me, let me start that one over.

Is Verizon categorically opposed to any trial of methods of unbundling access to loops served by IDLC?

A (Mr. Albert) We're opposed to the two

that Cavalier has specifically included in the contract. I'll give you an explanation, if you like.

Q No, let's leave that one right there, if that's sufficient for your answer.

MR. MAHER: I would actually like an explanation, if I could get that.

MR. ALBERT: Okay. And I've been worried about this issue, because I think to a lot of people, let's do a trial, kind of sounds like a warm and fuzzy puppy, and I was kind of worried I would be sitting here sounding like Robert Preston in The Music Man, saying, whoa, we got trouble.

But to try and put this into perspective, first, there are a number of different types of trials. When you're talking about doing trials to develop and invent new unbundled gizmos, I've been associated with doing those for Verizon from the engineering perspective, you know, since we invented unbundled loops.

But the first important thing is with trials, there's not one size or one flavor of a

trial that fits all circumstances. When you have a trial to develop, really, a new hardware and software means of providing a UNE, there are in actuality a progressive series of trials that you need to go through, in order to accomplish that, where if each stage is successful, you then proceed on to the next stage of the trial.

Typically, the very first starting point -- it's a pretty straightforward logic. With a trial you just need to define at the beginning what the purpose of the trial is. When I say "purpose," you have to really just define what's going to be evaluated, what it's going to include; you have to have a definition of what is success of that trial; and then you also then need further definition of if it's successful, what will come next in the process.

That gets into the aspect of development really does require a series of trials for different topics that you progress through as you get deeper into it.

Now, typically, the very first step is

that we will do a first-stage trial, really along the lines of seeing if we can get the electrons to flow and not violate the laws of physics. And this is if we have something where there's, you know, new hardware, new software, new equipment that would be used.

So Cavalier has proposed for this very narrow case of unbundled loops, two methods, one of which is called the hairpin method, another of which is called the multihosting method.

Now, with the hairpin method, in my testimony in Exhibit C, I've included an analysis that we put together at Cavalier's request of using the hairpin method to potentially provide individual unbundled loop handoffs.

We did that work back in July 2000. I've probably got about $50,000 worth of engineering time into that analysis that we did at Cavalier's request.

If you read that document, that basically includes more depth and more information relative to the hairpin method than what we would typically

create for the readout of a first stage trial, for getting the electrons to flow, to see if it would even work.

Now, the conclusion of that analysis, Exhibit C in my testimony, is, yes, we believe that you could get the electrons to flow. But the punch line is that it would be tremendously more expensive to develop and to invent than the two methods that we will make available to Cavalier in these very narrow circumstances.

What those other two methods are is, if you happen to be one of the 1.2 percent of working lines in Virginia that are at an outside plant loop terminal or loop location, where the only thing that's available is integrated digital loop carrier, what we've proposed in the contract -- and this is different than the triennial review, is that we will build either more copper or will build more universal digital loop carrier to provide an unbundled loop to satisfy that CLEC's request.

We will always do that, and that's different now because the triennial review said we

always have to provide something.

Those two methods, either more copper or more universal digital loop carrier, that's what we do for ourselves. It's fast, efficient and economical.

Again, if you go back to the Exhibit C analysis that we did do at Cavalier's request for hairpinning, there are all sorts of things in there. I won't hit them all.

For instance, the three switch tips we use in Virginia, one is made by the switch manufacturers Siemens. They do not have the hairpin nail-up capability available. We went got and an estimate from them about 20 man years of switch development time to create it.

We went to Telcordia and got an approximation of what would be required to do major modifications to our operational support systems to use the hairpin method. That would include modifications to some of the major legacy systems that Telcordia is responsible for, such as SWITCH, S-W-I-T-C-H, LFACS, L-F-A-C-S, and TIRKS, T-I-R-K-S.

Their estimate is we were looking at millions of dollars worth of operational development that would be required in order to mechanize the ordering, the provisioning, the maintenance, the inventory processes.

All that's included in that document. I won't hit a lot more. But basically, none of the operational support systems, including the Bell Corp legacy systems, currently for Verizon would support this particular method, the hairpin method.

To try and put a little perspective on when I'm saying millions and lots of dollars to develop for the case where we already have two efficient methods, the hairpin method, in essence, what it does is it takes the digital multiplex lines from the integrated digital loop carrier, it runs them through the switch, and then you come back out of the switch, and then you demultiplex it down to then hand it off to the CLEC as an individual loop.

So essentially, when you use the hairpin method to the switch, it basically looks like a call that's up and in progress for 60 minutes, an hour,

24 hours a day, seven days a week, 365 days a year.

Now, just to put a ballpark estimate in tel reg terms on what the additional switching costs would be for an unbundled loop provided using the hairpin method, if you take the current Verizon Virginia minute of use unbundled switching rates, and if you go through the multiplication of the path through the switch for 60 minutes a day, seven days a week, 52 weeks a year, you come up with an added cost just for the switching of $170 a month that it would add to the price of an unbundled loop.

Now, that very rough ballpark estimate, that does not include any dollars that need to be recovered for the millions worth of system -- operational system developments. It doesn't include any dollars for the development of process and procedures. It doesn't include any dollars for the equipment for the D4 channel banks that you'd have to have out in front of the interface prior to handing it to the CLEC.

So really, from our perspective, you know, the analysis that we've done for Cavalier, that's

more information than what would be proved in a first stage trial. We did do that at their request. We did not charge them for that. And we believe it's got a valid conclusion, which is that, hey, it's real expensive, it doesn't exist, it would take a lot to develop it, and we're willing to offer them two methods that are more efficient and that are cheaper and that match what we do ourselves for our own customers for nonswitched private lines.

We do not, within Verizon Virginia or within Verizon, do not use the hairpin switch method for nonswitch private lines. As I said, in Virginia we have the Siemens switch type, which is just another wrinkle that the switch development would require.

The second method, the multiswitch hosting, which Cavalier has proposed, or there's a particular flavor of digital loop carrier called GR 303. GR 303 is like a 600-page Bell Corp Telcordia spec, and it's a particular industry specification Telcordia orchestrated, having created.

That's a very unique flavor of integrated

digital loop carrier. It requires a specific software. It requires specific hardware in the switch.

Cavalier has suggested doing a trial of multiswitch hosting, which requires the use of equipment that meets the GR 303 specification.

For starters, within Virginia, within Verizon Virginia, we do not use and we do not plan in the near term to use any integrated digital loop carrier that meets the GR 303 specification. We've got zero of it installed. We don't have any plans to begin installing it.

What I did provide to Cavalier is, although multiswitch hosting -- this gets a little complicated, but although multiswitch hosting is a capability of this particular GR 303 flavor of digital loop carrier, what would be required to potentially use that for unbundled loops would be multiswitch hosting but, and here's the big wrinkle, you have to put in big bold print in front of that "with multiple carriers."

Now, I think in Cavalier's testimony they

have mentioned that they did a trial, and they, within their own switches and network, were able to get GR 303 up and working, and I'm sure that was the case.

But if you look at Exhibit D to my testimony, that's a letter from Alcatel, who is the equipment supplier for the primary equipment supplier of digital loop carrier that we, Verizon, use. And we had had them do an analysis at our request, and we worked with them on it, but had them do an analysis of what would be required to do the multiple switch hosting, meaning that you would have an integrated digital loop carrier system connected to different switches, but to do an assessment of what that would look like with multiple carriers, so that you'd have a GR 303 system connected to a switch of Verizon's and then to a switch of CLEC A and a switch of CLEC B and a switch of CLEC C, and on and on, because that's the way you'd have to configure it to do an unbundled loop.

And in that Exhibit D, there's a long list of unsolved industry issues that would have to be